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United Nations

United Nations Institute for Training and Research

Financial report and audited financial statements

for the biennium ended 31 December 2003 and

Report of the Board of Auditors

General Assembly
Official Records
Fifty-ninth Session
Supplement No. 5D (A/59/5/Add.4)

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Note

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31 March 2004

Pursuant to financial regulation 6.5, I have the honour to submit the 2002-2003 biennial accounts of the United Nations Institute for Training and Research as at 31 December 2003, which I hereby approve.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

(*Signed*) Marcel A. **Boisard**
Executive Director
United Nations Institute for Training and Research

The Chairman
The Board of Auditors
United Nations
New York

9 July 2004

I have the honour to transmit to you the financial statements of the United Nations Institute for Training and Research for the biennium 2002-2003 ended 31 December 2003, which were submitted by the Executive Director. These statements have been examined by the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts, including an audit opinion thereon.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa
and Chairman
United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

Chapter I

Financial report for the biennium ended 31 December 2003

Introduction

1. The Executive Director has the honour to submit herewith the financial report on the accounts of the United Nations Institute for Training and Research (UNITAR) for the biennium ended 31 December 2003.

Statement I
Income and expenditure and changes in reserves and fund balances

General Fund

2. Total income for the biennium increased by 12.7 per cent, from 1,699,160 United States dollars ($) in the previous biennium to $1,915,193 in 2002-2003. An increase in programme support income of $473,011 that was due to an increase in expenditures under the Special Purpose Grants Fund was offset by a continuing decline of $214,039 in voluntary contributions.

3. Total expenditures in the 2002-2003 biennium increased 14.3 per cent, from $1,790,253 to $2,045,373, mainly as a result of higher staffing costs, reflecting the effects of a weaker United States dollar.

4. Total reserves and fund balances as at 31 December 2003 declined to $626,461, from $772,520 at the end of the previous biennium.

Special-Purpose Grants Fund

5. Total income for the biennium increased sharply, by 29.7 per cent, from $11,252,398 in 2000-2001 to $14,595,636 in 2002-2003, as a result of higher contributions from Governments.

6. Reflecting the higher income, total expenditures also increased by 46.3 per cent, from $9,032,399 to $13,214,702 mainly owing to an increase in the number of new projects established during the biennium 2002-2003.

7. Total reserves and fund balances as at 31 December 2003 increased to $5,997,601 from $4,482,891 at the end of the previous biennium.

Activities financed by the United Nations Development Programme

8. Expenditures under projects financed by the United Nations Development Programme (UNDP) increased by 43.2 per cent, from $937,804 in the previous biennium to $1,343,118 in the biennium 2002-2003.

Statement II
Assets, liabilities, reserves and fund balances

9. As at 31 December 2003, the General Fund and the Special Purpose Grants Fund had cash and term deposits of $741,317 and $6,544,801 respectively. Those amounts compare to cash and term deposits of $790,503 and $4,823,346 as at the end of the previous biennium.

Statement IV
Status of expenditures against approved budget

10. Statement IV gives the status of General Fund expenditure against approved budget for the biennium 2002-2003. Total expenditures amounted to $2,045,373, which is $192,473 in excess of the approved budget. The higher expenditures were mainly due to higher staff costs, reflecting a weaker United States dollar and the recording of rental and maintenance expenditures for 2003, which were only partially budgeted.

Annex

Supplementary information

1. The present annex includes an explanation of the double-counting contained in the financial statements along with information the Executive Director is required to report.

Double-counting in the financial statements

2. The Institute's financial statements for individual funds contain elements of double-counting of income and expenditure totalling $1,251,406. Those amounts have been eliminated from the income and expenditure figures in statement I.

Write-off of losses of cash and receivables

3. In accordance with financial rule 106.8, a receivable of $20,506 from a closed project under the Special-Purpose Grants Fund was written off against the General Fund during the 2002-2003 biennium.

Write-off of losses of property

4. In accordance with financial rule 106.9, there was no write-off of losses of property.

Ex gratia payments

5. There were no ex gratia payments during the biennium 2002-2003.

Chapter II
Report of the Board of Auditors

Summary

The Board of Auditors has reviewed the operations of the United Nations Institute for Training and Research and has also audited its financial statements for the biennium ended 31 December 2003.

The Board's main findings are as follows:

(a) The financial situation of the General Fund slightly improved in 2003, but remained a matter of concern;

(b) Available reserves at the end of 2003 (757,198 United States dollars ($)) were insufficient to cover the staff termination liabilities, estimated at $1.7 million;

(c) The Institute had not yet established a formal recosting policy, although it is exposed to the risk of foreign exchange fluctuations (57 per cent of its income is in dollars, while 70 per cent of its expenditure is incurred in Swiss francs (SwF));

(d) The Institute did not fully comply with United Nations regulations and rules on the recruitment of staff and consultants, nor with the provisions of its Statute and internal rules on the appointment of fellows;

(e) The Institute was unable to document its degree of involvement with other United Nations entities regarding information and communications technology and online learning.

The Board made recommendations to improve the financing of the General Fund and of liabilities; to set an operational reserve; to report contributions in kind; to define rules for admission to core training programmes; to comply with instructions on recruitment of fellows and consultants; and to improve inter-agency coordination regarding information and communications technology and online learning. By July 2004, the Administration planned to implement a number of appropriate remedies.

A list of the Board's main recommendations is provided in paragraph 12 of the present report.

A. Introduction

1. The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Institute for Training and Research (UNITAR) for the period from 1 January 2002 to 31 December 2003, in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and the international standards on auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the biennium ended 31 December 2003 had been incurred for the purposes approved by the Board of Trustees; whether income and expenditure were properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of UNITAR presented fairly its financial position as at 31 December 2003 and the operations for the period then ended. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under United Nations Financial Regulation 7.5. The reviews focused primarily on the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of UNITAR.

4. The audit was carried out at UNITAR headquarters in Geneva.

5. The General Assembly also requested, in its resolution 57/278, paragraph 6, of 20 December 2002, that the Secretary-General and the executive heads of the funds and programmes of the United Nations examine governance structures, principles and accountability. **The Board noted that UNITAR did not take any action in this regard.**

6. The Board continued its practice of reporting the results of specific audits through management letters containing audit findings and recommendations to the Administration. That practice allowed an ongoing dialogue with the Administration.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with the Administration, whose views have been appropriately reflected in the report.

8. A summary of the Board's main recommendations is contained in paragraph 12 below. The detailed findings are discussed in paragraphs 14 to 88.

1. Previous recommendations not fully implemented

Biennium ended 31 December 1999[1]

9. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board reviewed the measures taken by the Administration to implement the recommendations made in its report for the biennium ended 31 December 1999. There is no significant outstanding matter.

Biennium ended 31 December 2001[2]

10. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by the Administration to implement the recommendations made in its report for the biennium ended 31 December 2001. Details of action taken and the comments of the Board are included in the report and have been summarized in the annex to the present chapter. Out of a total of five recommendations, three (60 per cent) were implemented, and two (40 per cent) were not implemented.

11. The Board has reiterated, in paragraphs 56 and 69 of the present report, previous recommendations that had not yet been implemented. The Board invites the Administration to assign specific responsibility and establish an achievable time frame to implement them.

2. Main recommendations

12. The Board's main recommendations are that UNITAR:

(a) **Find a viable solution for the funding of its General Fund expenditures, as recommended by the General Assembly (para. 23);**

(b) **Consider setting an operating reserve in respect of its current needs (para. 28);**

(c) **Comply with the United Nations system accounting standards on accounting for contributions in kind by reporting the value of all contributions received and ensuring proper documentation of their valuation (para. 36);**

(d) **Consider defining a recosting policy (para. 51);**

(e) **Address the issue of liabilities, so far unfunded, for annual leave, end-of-service and post-retirement benefits (para. 56);**

(f) **Define rules for admission to its core training programme (para. 69);**

(g) **Comply with (i) its Statute and internal rules on the appointment and assignment of fellows and (ii) with United Nations instructions on consultants (para. 77);**

(h) **Review the staffing of its information and communications technology (ICT) function (para. 82) and improve its coordination on information and communications technology strategy with other United Nations entities (para. 85).**

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[1] *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 5D* (A/55/5/Add.4), chap. II.

[2] Ibid., *Fifty-seventh Session, Supplement No. 5D* (A/57/5/Add.4 and Corr.1), chap. II.

13. The Board's other recommendations appear in paragraphs 32, 38, 48, 65, 73, 80 and 88.

B. Financial issues

1. Financial overview

14. The UNITAR financial statements comprise three funds: the General Fund, the Special-Purpose Grants Fund, and activities financed by the United Nations Development Programme (UNDP). The General Fund finances the Institute's administrative expenses and the core training programme for diplomats in Geneva, Nairobi, New York and Vienna. The other two funds finance specific projects from earmarked contributions. For the three funds, the total income increased by 27 per cent, from $13.1 million in 2000-2001 to $16.6 million in 2002-2003.

15. Expenditures increased by 40 per cent, to $15.4 million, from $11 million in the previous biennium. The net excess of income over expenditure decreased to $1.26 million, from $2.1 million in the previous biennium.

General Fund

16. Support costs are charged to special-purpose grant projects and UNDP projects ($1,251,406). Those costs represented 65 per cent of the General Fund's income in 2002-2003 of $1,915,193, as compared with 46 per cent of $1,677,422 in 2000-2001.

17. The declining trend in voluntary contributions credited to the General Fund accelerated in 2002-2003: voluntary contributions amounted to $566,470 in 2002-2003, as compared with $758,771 in 2000-2001 and $903,410 in 1998-1999, reflecting a decrease of 25 per cent since 2001 and 37 per cent since 1999. The number of donor countries remained stable (32 in 2002-2003 and in 2000-2001), with five of them contributing a total of 72 per cent of all voluntary contributions.

18. A third source of income contemplated by the Statute, income generated by the Reserve Fund (article VIII.2), has never existed, since that Fund, defined by article VIII.7, has not been established.

19. In 2003, General Fund expenditure amounted to $2,045,373. The shortfall of income over expenditure amounted to $167,057 in 2002-2003 (8 per cent of the expenditure of the biennium). The General Fund reserves were reduced from $772,520 at the end of 2001 to $626,461 at the end of 2003. If the deficit should continue, in five years the Fund reserves would be nil. However, the shortfall took place during the first year of the biennium, when the shortfall of income over expenditure amounted to $130,600 (14 per cent of the 2002 expenditure). Voluntary contributions increased slightly during the second year of the biennium, by 6.8 per cent.

20. As stated in paragraph 15 of the 2000-2001 Board of Auditors' report,[2] "continuity of operations might be of concern in future years if the present trend is not reversed" beyond the slight improvement of 2003.

21. The General Assembly, in its resolutions 55/208 of 20 December 2000 and 56/208 of 21 December 2001, encouraged UNITAR to resolve its critical financial

situation, in particular with a view to broadening its donor base and increasing the contributions made to the General Fund.

22. In addition, the General Assembly, in its resolution 57/292 of 13 February 2003, emphasized the need to find a viable financial solution. To follow up, UNITAR has considered limiting the use of its General Fund to its administrative expenses and establishing its core training programme under a special-purpose grant project; in spite of the urgency of finding a solution, the Board of Trustees did not discuss the proposal during its 2003 and May 2004 sessions. However, in 2002 it established a fund-raising committee, composed of seven Trustees, to assist the Executive Director. Since 2002, nine countries have resumed or started their contribution to the General Fund.

23. **UNITAR agreed with the Board's recommendation to take appropriate steps to find a viable solution for the funding of its General Fund expenditures, as recommended by the General Assembly.**

Special-Purpose Grants Fund

24. The income of the Special-Purpose Grants Fund increased by 30 per cent over the previous biennium, with voluntary contributions of $14.1 million representing 96 per cent of the total. Total direct expenditure increased by 45 per cent to $13.2 million. At the end of the period, the reported fund balance amounted to $5,997,601. Its high level is attributed to contributions received in 2003 and earmarked for funding future years' activities.

25. Note 2 (m) (i) to the financial statements stated that operating reserves were included in the totals for reserves and fund balances shown in the financial statements. However, as mentioned in paragraphs 18 and 19 of the previous report of the Board,[2] UNITAR did not formally establish the operating reserve of up to 15 per cent of the annual expenditures. This was not compliant with administrative instruction ST/AI/284 on the management of trust funds, according to which "an operating cash reserve at a constant level of 15 per cent of estimated annual planned expenditures will [normally] be maintained during the implementation of trust fund activities to cover shortfalls and will be utilized to meet the final expenditures under the trust fund, including any liquidating liabilities". Management considered it overly prudent and not in the best interests of the Institute to retain 15 per cent of project expenditure.[2]

26. Following an audit by the Board, the Institute established a provision to cover accrued annual leave and repatriation costs of project staff members. Effective 2003, projects are charged each year with 15 per cent of the total estimated liability, with the aim of building up a full reserve over a period of six to seven years. As at 31 December 2003, the specific provision amounted to $130,737, as mentioned in note 7 (f) to the financial statements.

27. UNITAR should have also allocated some $1 million to have an operating reserve at the required 15 per cent of the annual expenditures. UNITAR expressed its concern that donors might then request the return of the share of voluntary contributions allocated to the operating reserve. The Board is of the view that this concern is not justified and that UNITAR is not exempted from complying with the instruction ST/AI/284 regarding operating reserves.

28. **While commending UNITAR for the establishment of an annual leave and repatriation reserve, the Board recommends that the Institute consider setting an operating reserve in respect of its current needs.**

2. United Nations system accounting standards

29. The Board assessed the extent to which the financial statements of UNITAR for the biennium ended 31 December 2003 conformed to the United Nations system accounting standards. The review indicated that the financial statements were consistent with the standards, except to the extent of issues raised in the present report, specifically in paragraphs 31 to 36.

30. UNITAR has clarified its cash-based accounting policy in note 2 (j) (i) to the financial statements, which states that, in accordance with the United Nations system accounting standard 4 (iii), "voluntary contributions to the General Fund are recorded as income on the basis of a written commitment to pay monetary contributions at specified times within the current financial period. Voluntary contributions to the Special-Purpose Grants Fund are recorded as income upon receipt of cash. Voluntary contributions made in the form of services and supplies that are acceptable to the Institute are credited to income or noted in the financial statements". Note 2 (m) (iii) states that "deferred income includes pledged contributions for future periods and other income received but not yet earned".

31. By a letter dated 18 December 2003, UNITAR acknowledged a pledged contribution from a Government for $23,753 (20,000 euros (€)) for the General Fund for the funding of training seminars in 2004. While that pledge was not reported in the financial statements as at 31 December 2003, UNITAR recognized that it should have been recorded as deferred income in compliance with note 2 to the financial statements.

32. **The Board recommends that UNITAR account for income in compliance with accounting policies set in the notes to its financial statements.**

33. During the biennium 2002-2003, UNITAR received contributions in kind estimated at $1,055,500, as mentioned in note 6 to its financial statements, which is equivalent to 7.2 per cent of the total voluntary contributions received by UNITAR during the biennium 2002-2003. That figure was based on administrative support services provided by the United Nations Office at Geneva ($525,000), office space and equipment provided by the prefecture of Hiroshima, Japan ($230,000) and the secondment of executives from the Joint United Nations Programme on HIV/AIDS (UNAIDS) and a petroleum corporation ($300,000).

34. According to United Nations system accounting standard 34, "significant voluntary contributions in kind, which can be used in the normal course of an organization's programme activity, and provided that a fair value can be reasonably estimated, should be reported in the organization's financial statements. An organization may choose to recognize these contributions on the face of the statements or disclose them as a note. Such contributions should be valued at a fair value, including donor's valuation if appropriate, as best determined by the organization and the basis for such valuation should be disclosed". However, contrary to that principle, the basis for the valuation of contributions in kind received by UNITAR during the biennium was not disclosed in its financial

statements. UNITAR had no back-up document on the estimated value of $300,000 for the seconded executives.

35. Furthermore, although note 6 to the financial statements mentions that "conference servicing facilities are provided by the United Nations on an 'as available' basis free of charge", the value of such services provided to UNITAR during the biennium 2002-2003 was not indicated, thereby leading to an understatement of the contributions in kind.

36. **UNITAR agreed with the Board's recommendation to comply fully with standard 34 for accounting for contributions in kind by reporting the value of all contributions received and ensuring proper documentation of their valuation, and to consult the United Nations Secretariat on the valuation of conference services.**

37. According to the Statute of UNITAR (article VIII.13), "the general administrative, personnel and financial services of the United Nations shall be utilized by the Institute on conditions determined in consultation between the Secretary-General and the Executive Director, it being understood that no extra cost to the regular budget of the United Nations is to be incurred". UNITAR had, however, no agreement with the United Nations Office at Geneva for the provision of services free of charge; consequently the list of services to be provided and their value were not defined.

38. **UNITAR agreed with the Board's recommendation to sign an agreement with the United Nations Office at Geneva listing the nature and the rates of services provided to the Institute, and to consult with the Office on the matter.**

39. Since 1998, UNITAR has not paid the rental charges for its New York Office or the maintenance charges for its Office at Geneva. The accumulated debt first amounted to $321,184 as at 31 December 2002. In its resolution 58/272, section XIV, of 23 December 2003, the General Assembly cancelled that debt, and also decided to revert to the issue during its fifty-ninth session. UNITAR has obligated the funds related to the same charges for 2003, for a total amount of $108,015. That amount represented 88 per cent of the total unliquidated obligations posted to the General Fund as at 31 December 2003. Although the funds were available, UNITAR did not disburse them, as the Board of Trustees decided that they would be considered as a "reserve" until a decision is taken by the General Assembly.

3. Presentation and disclosure of the financial statements

40. The General Assembly, in its resolution 55/220 of 23 December 2000, requested "the Secretary-General and the executive heads of the funds and programmes of the United Nations, in conjunction with the Board of Auditors, to continue to evaluate what financial information should be presented in the financial statements and schedules and what should be presented in annexes to the statements".

Narrative financial report

41. No mandatory format or specific guidelines apply to the content of the financial report, and the United Nations system accounting standards do not address that issue. The commentaries in the narrative financial report prepared by UNITAR

(chapter I of the Report of the Board on the financial statements) do not mention such issues as those outlined below.

Performance reporting and non-financial information

42. UNITAR performance, in terms of its organizational objectives and mandate and its key objectives, is not described in the financial report attached to the financial statements. The report comprises only a summary of key financial information included in statements I, II and IV and provides brief explanations of the shortfall of income over expenditure of the General Fund as reported in the financial statements.

Social accounting issues

43. "Social accounting" issues (such as environmental issues, health, safety and human resource issues) are increasingly considered beneficial to users of financial statements reports.

Risk management, continuity and internal control

44. The success of most organizations is dependent, inter alia, on the constant identification of risks and the continuous development of systems and controls to address those risks. Accordingly, risk information disclosures are relevant to the needs of financial statement users. Such disclosures would usually deal at a minimum with the measures put in place to address financial risks, to safeguard assets and financial records, and to ensure continuity in case of a disaster.

45. While the financial report provides a summary of the financial statements of 2002-2003 (budget and expenditure and financial positions), no key indicators or ratios, such as current ratio and current liabilities as a percentage of total liabilities, were included.

46. UNITAR does not mention the existence of a disaster management and recovery plan; internal measures to manage risks; internal code of ethics and conduct and enforcement thereof among employees; the internal audit function; details of any oversight committee reviewing the work of internal audit; nor any measures put in place to safeguard the integrity of management and financial information.

47. Following the observations made by the Board, UNITAR indicated that it would, in conjunction with United Nations Headquarters, consider additional disclosure in its future financial reports as appropriate, bearing in mind their usefulness and the information already provided through other reports.

48 **UNITAR agreed with the Board's recommendation to consider the disclosure of items in the financial report in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues. In this regard, UNITAR should revert to General Assembly resolution 57/278, paragraph 6, of 20 December 2002, requesting "the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability throughout the United Nations system"; better disclosure would be a step towards taking a proactive approach to the review requested by the General Assembly.**

4. Recosting policy

49. During the biennium 2002-2003, UNITAR received most of its income in United States dollars (57 per cent), while the bulk of its expenditure was in Swiss francs (about 70 per cent). Currency fluctuations recorded in 2002-2003 contributed to the decline of the General Fund, including an increase in salary costs estimated at $201,743.

50. UNITAR dealt with the fall of the dollar by requesting further funding from the donors or reducing the level of activities. However, the Institute had not yet considered establishing a recosting policy to take into account changes in the operational rates of exchange, actual inflation or the outcome of salary surveys.

51. **UNITAR agreed with the Board's recommendation to consider defining a recosting policy as part of the formulation and monitoring of its budget.**

5. Liabilities for annual leave, end-of-service and post-retirement benefits

52. The Board had previously recommended that UNITAR, in conjunction with United Nations Headquarters, review the funding mechanisms and targets for end-of-service liabilities in line with policies adopted by other United Nations organizations.[2]

53. The liabilities for accrued annual leave, after-service health insurance and termination benefits are indicated in note 7 to the financial statements and amounted to $1.7 million at 31 December 2003.

Liabilities for annual leave, end-of-service and post-retirement benefits

(United States dollars)

	2000-2001	*2002-2003*
After-service health insurance (net accrued liability)	810 000	896 000
Accrued annual leave	184 000	322 000
Other termination benefits	397 000	528 000
Total liabilities	**1 391 000**	**1 746 000**
Less provisions and reserves	**(772 520)**	**(757 198)**
Net total not funded	**618 480**	**988 802**

54. As the balance of the Special-Purpose Grants Fund is almost entirely earmarked for funding projects activities, the only resources available to fund the liabilities are the provision for repatriation mentioned in paragraph 26 ($130,737) and the reserves accumulated against the General Fund ($626,461), amounting to $757,198 (43 per cent of the accrued total liabilities at the end of the biennium). As mentioned in paragraph 26, the provision aims at covering the accrued annual leave and repatriation costs of project staff members; the total liabilities ($850,000) on the two items amounted to over six times that provision as at 31 December 2003. UNITAR planned to build up the provision over a period of six to seven years.

55. Voluntary-funded organizations such as UNITAR are particularly vulnerable to the risk of a downturn in income, which could lead to significant expenditures for

their liabilities while no funds are set aside to cover them. Pending a United Nations report on the funding of after-service health insurance benefits, the Institute has not submitted that issue to its governing body.

56. **The Board reiterates its recommendation that UNITAR, in conjunction with the Administration of the United Nations and other funds and programmes, review the funding mechanism and targets for end-of-service and post-retirement benefits liabilities.**

6. Write-off of losses of cash, receivables and property

57. In accordance with United Nations financial regulation 6.4 and rules 106.8, UNITAR wrote off $20,506 in respect of irrecoverable balances due from various entities or arising from theft or from losses of cash.

7. Ex gratia payments

58. UNITAR reported no ex gratia payments during the financial period ended 31 December 2003.

C. Management issues

1. Programme of decentralized cooperation

59. The Decentralized Cooperation Programme, a special-purpose grant project, aims at carrying out training, organizing meetings and providing guidelines for local authorities and other entities in charge of decentralized cooperation. It has been implemented in particular through the *Centre international de formation des autorités/acteurs locaux* (CIFAL: International Training Centre for Local Authorities/Actors), which is an office within UNITAR. It operates as an informal structure "headquartered" in France.

60. The Programme has been funded through two non-governmental organizations by a variety of partners, including the European Union, the private sector and local authorities. One of the two non-governmental organizations is a French not-for-profit association. Overall expenditure for the Programme has amounted, on average, to half a million dollars per year.

61. The not-for-profit association, according to its statute, was created under cover of UNITAR and in accordance with the objective of the interregional committee between France, Geneva and Vaud which, in the charter of development of the cross-border towns between France, Geneva, and Vaud, presents the regional plan of reception of the international organizations in the French Geneva region.

62. UNITAR stated that part of the funds provided through the association were allocated to cover UNITAR staff costs, with the agreement of the donors. The association's financial statements reflected an income of €76,006 ($94,889 at the United Nations rate of exchange as at 31 December 2003) in 2002. Expenditures amounted to €52,449 ($65,479). Net assets were stated at €81,568 ($101,833) at the same date.

63. The Executive Director of the United Nations Institute for Training and Research was elected Chairman of the association's Board. Article 10 of the association statute stated that the officers in charge of the CIFAL programme of

UNITAR would manage the executive office of the association and that the principal coordinator of the CIFAL programme of UNITAR would be the executive director of the association, with responsibility for the daily management of the association.

64. United Nations Staff Regulation 1.2 (o) on outside employment and activities states that "staff members shall not engage in any outside occupation or employment, whether remunerated or not, without the approval of the Secretary-General". Articles 8 and 10 of the association's statute, as quoted above, were therefore in conflict with this regulation. On the contrary, neither of the two UNITAR officers sought, nor obtained, the Secretary-General's approval to engage in the non-remunerated, outside occupations of Chairman and Executive Director respectively of a non-governmental organization directly related to their place of employment, the United Nations Institute for Training and Research.

65. **Following the Board's audit, UNITAR now requires its staff to comply strictly with the United Nations staff regulation on outside employment and activities.** The UNITAR executive director has resigned from the association's chairmanship, and the UNITAR Programme Coordinator resigned from the position of Executive Director, in October 2003. By 2004, the Programme was continuing, in compliance with United Nations regulations.

2. Core training programme

66. The Board, in paragraphs 30 to 34 of its previous report,[2] noted the discrepancy already outlined by the General Assembly between the decline in contributions to the General Fund of the Institute and the increase in the industrialized countries' participation in its programme. The Board had recommended that UNITAR issue guidelines addressing that discrepancy and comply with article III, paragraph 2 of its Statute by defining the conditions of admission to the UNITAR core training programme.

67. By April 2004, UNITAR had yet to comply with its Statute and had not determined the conditions of admissions to its core training programme. Participants from developing countries represented only 43 per cent of the total number of participants from July 2002 to December 2003. Only five industrialized countries contributed to the General Fund ($352,000, or 63 per cent of the voluntary contributions credited to the General Fund during the biennium 2002-2003).

68. UNITAR indicated that the Board of Trustees had decided to give priority to candidates from contributing countries, but not to exclude systematically those from non-contributing countries. However, UNITAR could not locate such a decision in the minutes of its sessions.

69. **As the financial situation of the General Fund is still a matter of concern, the Board reiterates its recommendation that UNITAR (i) comply with its Statute by defining rules for admission to its core training programme, and (ii) address urgently the issue of the discrepancies between the decline in contributions to its General Fund and the increase in industrialized countries' participation in its programme.**

3. Human resources management

70. UNITAR has a full delegation of authority for human resources management, except for post classification. In 2004, following an audit by the Board, UNITAR

computed the number of all individuals it had engaged during the biennium 2002-2003. As at 31 December 2003, UNITAR had 40 regular staff members, but had engaged a total of 749 persons during the biennium, including 68 fellows or special fellows, 72 interns and 569 consultants.

71. The United Nations Staff Rules require that project personnel be recruited as non-career professional staff under the 200 series relating to technical assistance project personnel. However, as at 31 December 2003, there were still eight staff members under series 100, of which only two, the Executive Director and the Finance and Administrative Officer, appropriately, were non-project personnel. The other six were project personnel and should have been under series 200.

72. According to the Statute of UNITAR, "the staff of the Institute shall be recruited on as wide a geographical basis possible, primary consideration being given to the particular requirements of the Institute" (article IV.6), in accordance with United Nations Staff Regulations and with the goals defined by the Secretary-General in his 2002 reform of the staff selection system, including the following: "to select staff on the basis of merit, demonstrated competencies and performance, through a competitive process where the paramount consideration is the necessity of securing the highest standards of efficiency, competence and integrity, with due regard to the importance of recruiting the staff on as wide a geographical basis as possible".[3] However, UNITAR has not achieved that objective, with 85 per cent of its staff coming from the industrialized countries.

73. **UNITAR agreed with the Board's recommendation to increase its efforts to comply with its Statute and with the instructions regarding geographical distribution of staff.**

74. In paragraph 10 of its report on UNITAR for the biennium 1998-1999,[1] the Board of Auditors recommended that UNITAR (i) establish clear procedures for selecting and appointing fellows; (ii) ensure that their appointment letters provide a clear description of the duties to be performed, including precise and measurable outputs; and (iii) ensure that payments to fellows follow the principles set out in the United Nations guidelines on consultant remuneration, which require the primary considerations to be the complexity, difficulty and extent of the work to be performed and the degree of expertise required to accomplish it. Further to the Board's report, internal rules on fellows were adopted by the Board of Trustees in 2001.

75. Out of a total of 21 fellows remunerated by UNITAR in 2002, with a range of monthly fees from SwF 700 to SwF 10,400, the Board reviewed a sample of seven cases and found:

(a) That the selection process was not always competitive, and that in two cases fellows were selected for their "unique knowledge in the subject matter", without documented justification. This is contrary to the United Nations instruction on consultants, which stipulates that on an exceptional basis, and only in case of force majeure, a consultant may be engaged even though he or she was the only candidate considered, provided a reasoned and documented justification for such exception is recorded prior to the selection;

[3] ST/SGB/2002/5.

(b) That one fellow had been continuously employed half time since 1994 to manage the UNITAR information and technology network and systems, first as a consultant and then, from 1 January 2002, as a fellow. Since this is an ongoing function, the appointment was not in compliance with the UNITAR Statute (article VI.2) and internal rules, according to which a fellow should be appointed for a project and not for permanent administrative tasks;

(c) That the monthly fee paid to the above-mentioned fellow was SwF 5,775 for a half-time appointment ($4,620 as at 31 December 2003). The remuneration was above the maximum level (SwF 10,400 full-time) set up by the internal rules on fellows recruited at the equivalent P-5 level; it did not comply with instructions stating that part-time staff are paid half of full-time pay (ST/AI/291/Rev.1, para. 5). Furthermore, a P-5 level may not be justified in view of the small size of UNITAR as compared with the United Nations Office at Geneva where, with much heavier duties, the Chief of the Information and Communication Technology Service is also at the P-5 level.

76. In 2002, UNITAR signed special services agreements with 132 consultants. The Board noted that, out of a sample of nine cases, there had been no competitive process. UNITAR explained that consultants in general have mainly been recruited based on their merits in the past. New consultants are usually presented through word of mouth from contacts. However, management considered repeatedly that full compliance with United Nations instruction on consultants would be unworkable and would result in inefficiency, waste of time and poorer quality training, thus leading ultimately to funding problems which would do harm to the goals of the Organization. The Board is of the view that the Institute's special status for fellows already provides the appropriate flexibility, and that should further flexibility be required, it should be sought through a revision of the relevant procedures.

77. **UNITAR agreed "to comply as much as possible" with the Board's recommendation to comply (i) with its Statute and internal rules on the appointment and assignment of fellows, and (ii) with United Nations instructions on consultants, including by considering several qualified candidates for each consultancy assignment and appointment of fellows.**

4. Administrative management of training programmes

78. UNITAR implements training programmes in a decentralized manner, and its programme coordinators exercise autonomy in managing their programmes. In 2001, the Office of Internal Oversight Services recommended standardizing procedures for sharing project monitoring techniques through documentation of identified techniques.

79. UNITAR policies and procedures on project management are set out in the document on management of special-purpose grant policies and procedures approved by the Board of Trustees on 25 February 1994. The job descriptions of the programme coordinators (in charge of management of projects), the administrative assistants and the Chief of Finance and Administration state the responsibilities entrusted to staff in this regard. The 10 programme coordinators are responsible for the whole project management cycle, including reporting to donors. Such decentralization may present a risk of duplication of tasks, or of a lack of coordination, between the administrative and finance section and the coordinators, as illustrated by the fact that original receipts provided by the United Nations Office

at Geneva were kept in the finance section's files without explanation instead of being forwarded to the programme coordinators, who are responsible for monitoring and acknowledging the receipt of funds. However, UNITAR considered it doubtful that the overall administrative costs could be reduced significantly, considering that most of the funds were project monies and that the administration staff, in each programme, had already been reduced to its minimum. As noted above, the financial situation of the General Fund is, despite a slight improvement, a recurrent matter of concern. The Board is therefore of the view that UNITAR should reconsider the issue.

80. **The Board recommends that UNITAR reconsider its current decentralized organization for administrative services to programmes, with a view to reducing the overall administrative costs.**

5. Information and communications technology strategies

81. The Institute's expenditures on information and communications technology were reported at $160,000 for 2002-2003. The only ICT staff member was a part-time fellow. While UNITAR promotes training sessions on such topics, it does not appear to have participated in recent years in inter-agency boards and related initiatives such as the Information Systems Coordination Committee and the Information and Communication Technology Network (ICT Network). UNITAR has its own information technology committee of four members but did not provide the auditors with its precise terms of reference (members, frequency of meetings, reporting line, purpose), nor with documents on its security and disaster recovery policy.

82. **UNITAR agreed with the Board's recommendation to (i) review the current information and communications technology function to consider if it is appropriately staffed, (ii) improve its cooperation with other United Nations organizations to further benefit from system-wide experience, and (iii) adopt precise terms of reference for its information technology committee.**

83. There was little evidence of cooperation in information and communications technologies between UNITAR and other United Nations organizations engaged in training and research. The web site (http://www.unitar.org) offers several courses online, which implies the existence of an infrastructure: a learning management system or equivalent facility and other ICT tools. UNITAR was unable to document its degree of involvement with other United Nations entities' online learning prior to its selection of the facilities and tools on its web site. The Institute has been in contact with the United Nations University and the United Nations Staff College, but with no concrete results so far.

84. In conclusion, UNITAR could usefully pursue its efforts to align itself with best practices, in order to maintain a more comprehensive and cost-effective ICT strategy, based on the appropriate standards and monitoring tools.

85. **UNITAR agreed with the Board's recommendation to optimize more proactively the use of resources by cooperating further with other United Nations entities, particularly those engaged in training and research, including online learning.**

6. Fraud and presumptive fraud

86. The Administration reported to the Board that no case of fraud or presumptive fraud was found during the financial period ended 31 December 2003.

87. The Institute, however, does not have a comprehensive internal anti-fraud and corruption infrastructure. It does not have a proactive anti-fraud and corruption strategy and plan, which means that such internal risks are not properly addressed. Owing to the lack of a comprehensive anti-fraud plan, the Institute:

(a) Has no effective framework for internal fraud prevention, detection, resolution and reporting;

(b) Has no formal internal corruption and fraud risk assessment function;

(c) Has conducted no ethics, anti-corruption and fraud-awareness training sessions or workshops.

88. **The Board recommends that UNITAR develop, document and implement a plan against the risk of internal corruption and fraud, including fraud-awareness initiatives, in coordination with the Administration of the United Nations and the other funds and programmes to obtain the benefit of best practices, where available.**

D. Acknowledgement

89. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and the staff of the Institute.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

9 July 2004

Note: The members of the Board of Auditors have signed only the original English version of the report.

Annex

Summary of the status of implementation of recommendations for the financial biennium ended 31 December 2001

Topic	*Implemented*[a]	*Under implementation*	*Not implemented*[a]	*Total*	*Reference in the present report*
Operating reserves	-	-	Para. 20	1	Para. 28
Programme support income	Para. 23	-	-	1	-
Separation costs for staff members entitled to international benefits	Para. 25	-	-	1	Paras. 26-28
Statistics	Para. 29	-	-	1	Para. 67
Contributions and participation to the core training programmes	-	-	Para. 34	1	Para. 66
Total					
Number	**3**	**0**	**2**	**5**	
Percentage	**60**	**0**	**40**	**100**	

[a] See *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 5D* (A/57/5/Add.4 and Corr.1), chap. II.

Chapter III
Audit opinion

We have audited the accompanying financial statements of the United Nations Institute for Training and Research, comprising statements numbered I to IV, and the supporting notes for the biennium ended 31 December 2003. The financial statements are the responsibility of the Executive Director. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and in conformity with international standards on auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis and where considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Executive Director, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position as at 31 December 2003 and the results of operations and cash flows for the period then ended in accordance with the stated accounting policies of the United Nations Institute for Training and Research set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Furthermore, in our opinion, the transactions of the Institute that have come to our notice or which we have tested as part of our audit have in all significant respects been in accordance with the Financial Regulations and legislative authority.

In accordance with article VII of the Financial Regulations, we have also issued a long-form report on our audit of the financial statements of the United Nations Institute for Training and Research.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

9 July 2004

Note: The members of the Board of Auditors have signed only the original English version of the Audit opinion.

Chapter IV
Certification of the financial statements

1. The financial statements of the United Nations Institute for Training and Research for the biennium 2002-2003 ending 31 December 2003 have been prepared in accordance with financial rule 106.10.

2. The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes provide additional information and clarification of the financial activities undertaken by the Institute during the period covered by the statements, for which the Secretary-General has administrative responsibility.

3. I certify that the appended financial statements of the United Nations Institute for Training and Research, numbered I to IV, are correct.

(*Signed*) Jean-Pierre **Halbwachs**
Assistant Secretary-General, Controller

31 March 2004

Chapter V

Financial statements for the biennium ended 31 December 2003

Statement I

UNITED NATIONS INSTITUTE FOR TRAINING AND RESEARCH ALL FUNDS SUMMARY a/

Statement of income and expenditure and changes in reserves and fund balances

for the biennium 2002-2003 ending 31 December 2003

(United States dollars)

		Other activities				
	General Fund	Special Purpose Grants Fund	Activities financed by UNDP	All funds eliminations	Total 2003	Total 2001 b/
INCOME:						
Voluntary contributions received	566,470	14,068,578	-	-	14,635,048	11,455,376
Funds received under inter-organization arrangements	14,436	-	1,343,118	-	1,357,554	937,804
Programme support income	1,251,406	-	-	(1,251,406)	-	-
Interest income	58,173	479,043	-	-	537,216	525,482
Other/miscellaneous income	24,708	48,015	-	-	72,723	192,305
TOTAL INCOME	1,915,193	14,595,636	1,343,118	(1,251,406)	16,602,541	13,110,967
EXPENDITURE:						
Staff and other personnel costs	1,590, 42	7,716,948	463,093	-	9,770,483	5,256,577
Travel	89,915	1,066,498	6,661	-	1,163,074	854,287
Contractual services	11,134	797,536	346,370	-	1,155,040	748,799
Operating expenses	321,284	285,465	408,489	-	1,015,238	453,663
Acquisitions	25,691	202,449	4,128	-	232,268	172,780
Other	6,907	1,970,194	38,583	-	2,015,684	3,495,955
Total direct expenditure	2,045,373	12,039,090	1,267,324	-	15,351,787	10,982,061
Programme support costs	-	1,175,612	75,794	(1,251,406)	-	-
TOTAL EXPENDITURE	2,045,373	13,214,702	1,343,118	(1,251,406)	15,351,787	10,982,061
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	(130,180)	1,380,934	-	-	1,250,754	2,128,906
Prior period adjustments	(36,877)	42,598	-	-	5,721	483
NET EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	(167,057)	1,423,532	-	-	1,256,475	2,129,389
Refund to donors	-	(38,040)	-	-	(38,040)	(213,336)
Savings on, or cancellation of, prior periods' obligations	20,998	129,218	-	-	150,216	120,664
Reserves and fund balances, beginning of period	772,520	4,482,891	-	-	5,255,411	3,218,694
RESERVES AND FUND BALANCES, END OF PERIOD	**626,461**	**5,997,601**	-	-	**6,624,062**	**5,255,411**

a/ See note 3.

b/ Reclassified to conform to current presentation.

The accompanying notes are an integral part of the financial statements.

UNITED NATIONS INSTITUTE FOR TRAINING AND RESEARCH ALL FUNDS SUMMARY a/

Statement of assets, liabilities and reserves and fund balances

as at 31 December 2003

(United States dollars)

		Other activities				
	General Fund	Special Purpose Grants Fund	Activities financed by UNDP	All funds eliminations	Total 2003	Total 2001
ASSETS						
Cash and term deposits	741,317	6,544,801	-	-	7,286,118	5,613,849
Pledged contributions receivable	4,000	-	-	-	4,000	35,400
Due from United Nations General Fund	-	-	-		-	118,815
Receivable from funding source	-	-	443,678	-	443,678	377,872
Other accounts receivable	3,872	100,164	1,748	-	105,784	61,145
TOTAL ASSETS	749,189	6,644,965	445,426	-	7,839,580	6,207,081
LIABILITIES						
Contributions or payments received in advance	-	-	-	-	-	26,400
Unliquidated obligations	117,040	459,369	158,716	-	735,125	857,153
Due to United Nations General Fund	5,688	3,558	286,478		295,724	-
Other accounts payable	-	184,437	232	-	184,669	68,117
TOTAL LIABILITIES	122,728	647,364	445,426	-	1,215,518	951,670
RESERVES AND FUND BALANCES						
Operating reserves	168,611	-	-	-	168,611	133,781
Balances relating to projects funded by donors	-	5,997,601	-	-	5,997,601	4,482,891
Cumulative surplus (deficit)	457,850	-	-	-	457,850	638,739
TOTAL RESERVES AND FUND BALANCES	626,461	5,997,601	-	-	6,624,062	5,255,411
TOTAL LIABILITIES AND RESERVES AND FUND BALANCES	749,189	6,644,965	445,426		7,839,580	6,207,081

a/ See note 3.

The accompanying notes are an integral part of the financial statements.

Statement III

UNITED NATIONS INSTITUTE FOR TRAINING AND RESEARCH ALL FUNDS SUMMARY a/

Statement of cash flows

for the biennium 2002-2003 ending 31 December 2003

(United States dollars)

	General Fund	Other activities		Total 2003	Total 2001
		Special Purpose Grants Fund	Activities financed by UNDP		
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net excess (shortfall) of income over expenditure (Statement I)	(167,057)	1,423,532	-	1,256,475	2,129,389
(Increase) decrease in pledged contributions receivable	31,400	-	-	31,400	(31,535)
(Increase) decrease in receivable from funding source	-	-	(65,806)	(65,806)	(377,872)
(Increase) decrease in other accounts receivable	4,074	(49,015)	302	(44,639)	104,323
Increase (decrease) in contributions or payments received in advance	(26,400)	-	-	(26,400)	(830,140)
Increase (decrease) in unliquidated obligations	82,369	85,258	(289,655)	(122,028)	245,534
Increase (decrease) in other accounts payable	(258)	122,072	(5,262)	116,552	(23,704)
Less: Interest income received	(58,173)	(479,043)	-	(537,216)	(525,482)
NET CASH FROM OPERATING ACTIVITIES	**(134,045)**	**1,102,804**	**(360,421)**	**608,338**	**690,513**
CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES:					
(Increase) decrease in due from United Nations General Fund	-	48,430	-	48,430	(33,869)
Increase (decrease) in due to United Nations General Fund	5,688	-	360,421	366,109	-
Plus: Interest income received	58,173	479,043	-	537,216	525,482
NET CASH FROM INVESTING AND FINANCING ACTIVITIES	**63,861**	**527,473**	**360,421**	**951,755**	**491,613**
CASH FLOWS FROM OTHER SOURCES:					
Savings on, or cancellation of, prior periods' obligations	20,998	129,218	-	150,216	120,664
Refunds to donors	-	(38,040)	-	(38,040)	(213,336)
NET CASH FROM OTHER SOURCES	**20,998**	**91,178**	**-**	**112,176**	**(92,672)**
NET INCREASE (DECREASE) IN CASH AND TERM DEPOSITS	**(49,186)**	**1,721,455**	**-**	**1,672,269**	**1,089,454**
CASH AND TERM DEPOSITS, BEGINNING OF PERIOD	**790,503**	**4,823,346**	**-**	**5,613,849**	**4,524,395**
CASH AND TERM DEPOSITS, END OF PERIOD	**741,317**	**6,544,801**	**-**	**7,286,118**	**5,613,849**

a/ See note 3

The accompanying notes are an integral part of the financial statements

UNITED NATIONS INSTITUTE FOR TRAINING AND RESEARCH - GENERAL FUND

Status of expenditures against budget

for the biennium 2002-2003 ending 31 December 2003

(United States dollars)

Programme	Approved budget	Expenditure			Unencumbered balance
		Disbursements	Unliquidated obligations	Total	
Geneva Headquarters	1,070,800	1,167,346	45,532	1,212,878	(142,078)
New York Liaison Office	484,800	407,383	68,303	475,686	9,114
Training in Diplomacy	297,300	353,604	3,205	356,809	(59,509)
Total	**1,852,900**	**1,928,333**	**117,040**	**2,045,373**	**(192,473) a/**

a/ Excess of expenditures over the approved budget is due to higher salary costs as a result of the weaker United States dollars against the Swiss Franc, and due to rental and maintenance charges for 2003 (see note 5).

The accompanying notes are an integral part of the financial statements.

Notes to the financial statements

Note 1
United Nations Institute for Training and Research and its activities

(a) The United Nations Institute for Training and Research was established in 1965 as an autonomous body within the United Nations with the purpose of enhancing the effectiveness of the Organization through appropriate training and research. UNITAR is governed by a Board of Trustees and is headed by an Executive Director. The Institute is supported by voluntary contributions from Governments, intergovernmental organizations, foundations and other non-governmental sources.

(b) UNITAR develops, improves and extends training programmes in the fields of international affairs management and in economic and social development. The Institute's functions may be summarized as follows:

(i) To conduct training programmes in multilateral diplomacy and international cooperation for diplomats accredited to the United Nations and national officials involved in work related to United Nations activities;

(ii) To carry out a wide range of training programmes in the field of social and economic development, generally at the request of Governments, multilateral organizations, and public and private development cooperation agencies;

(iii) To establish and strengthen cooperation with faculties and academic institutions, in particular for the development of research on and for training.

(c) Current UNITAR training programmes are presented under the following titles:

(i) Multilateral diplomacy and international affairs management;

(ii) Peacemaking and preventive diplomacy;

(iii) Training for civilian personnel in United Nations peacekeeping operations;

(iv) New York activities;

(v) Hiroshima programmes;

(vi) International migration policy programme;

(vii) Chemicals and waste management;

(viii) Climate change programme;

(ix) Application of environmental law;

(x) Foreign economic relations;

(xi) Legal aspects of debt and financial management;

(xii) Information society and development;

(xiii) Decentralized cooperation;

(xiv) Miscellaneous projects

(d) UNITAR receives requests for programme design and implementation from UNDP, the United Nations Environment Programme (UNEP) and other United Nations bodies, as well as from the secretariats of United Nations conventions (such as those of the United Nations Framework Convention on Climate Change, the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal and the Stockholm Convention on Persistent Organic Pollutants). The Institute views this as a part of its mission to be an effective training arm of the United Nations. With the new cooperative links being established with agencies and organs of the United Nations system, with governmental and private development cooperation agencies and with training institutes in industrialized and developing countries and countries in transition (in Africa, Asia, Latin America and the Caribbean, and Europe), the Institute is becoming an increasingly important provider of training to a large constituency in different sectors.

Note 2
Summary of significant accounting and financial reporting policies of the United Nations Institute for Training and Research

(a) As provided in article VIII of its Statute, the UNITAR accounts are maintained in accordance with the Financial Regulations of the United Nations as adopted by the General Assembly, the rules formulated by the Secretary-General as required under the regulations and administrative instructions issued by the Under-Secretary-General for Management or the Controller. They also take fully into account the United Nations system accounting standards, as adopted by the former Administrative Committee on Coordination (ACC). The ACC has since been replaced by the United Nations System Chief Executives Board for Coordination (CEB). The Institute follows International Accounting Standard 1, "Presentation of financial statements", on the disclosure of accounting policies, as modified and adopted by the CEB, as shown below:

(i) Going concern, consistency, and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;

(ii) Prudence, substance over form and materiality should govern the selection and application of accounting policies;

(iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;

(iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. The policies should normally be disclosed in one place;

(v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;

(vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.

(b) The Institute's accounts are maintained on a fund accounting basis. Separate funds for general or special purposes may be established by the General Assembly or the Executive Director. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing, double-entry group of accounts. Separate financial statements are prepared for each fund or for a group of funds of the same nature.

(c) The financial period of the Institute is a biennium and consists of two consecutive calendar years.

(d) Generally, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting.

(e) The accounts of the Institute are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transactions at rates of exchange established by the United Nations. In respect of such currencies, the financial statements shall reflect the cash, investments, unpaid pledges and current accounts receivable and payable in currencies other than United States dollars, translated at the applicable United Nations rates of exchange in effect as at the date of the statements. In the event that the application of actual exchange rates at the date of the statements would provide a valuation materially different from the application of the United Nations rates of exchange for the last month of the financial period, a footnote will be provided quantifying the difference.

(f) The Institute's financial statements are prepared on the historical cost basis of accounting and are not adjusted to reflect the effects of changing prices for goods and services.

(g) The cash flow statement is based on the indirect method of cash flows as referred to in the United Nations system accounting standards.

(h) The Institute's financial statements are presented in accordance with the ongoing recommendations of the Working Party on Accounting Standards to the CEB.

(i) The results of the Institute's operations, presented in Statements I, II, and III, are shown at a summary level by general type of activity as well as on a combined basis for funds other than those that are reported on separately, after the elimination of all inter-fund balances and instances of double-counting of income and expenditure. Their presentation on a combined basis does not imply that the various separate funds can be intermingled in any way, since, normally, resources may not be utilized between funds.

(j) Income

(i) Voluntary contributions to the General Fund are recorded as income on the basis of a written commitment to pay monetary contributions at specified times within the current financial period. Voluntary contributions to the Special-Purpose Grants Fund are recorded as income upon receipt of cash. Voluntary contributions made in the form of services and supplies that are acceptable to the Institute are credited to income or noted in the financial statements;

(ii) Interest income includes all interest earned on deposits in various bank accounts and investment income earned on marketable securities and other negotiable instruments. All realized losses and net unrealized losses on short-term investments are offset against investment income;

(iii) Miscellaneous income includes sale of used or surplus property, refunds of expenditures charged to prior periods, income from net gains resulting from currency translations, settlements of insurance claims, monies accepted for which no purpose was specified and other sundry income;

(iv) Income received under inter-organization arrangements represents allocations of funding from agencies to enable the Institute to administer projects or other programmes on their behalf. The allocation income from UNDP is determined taking into account interest and other miscellaneous income against total expenditure;

(v) Income relating to future financial periods is not recognized in the current financial period and is recorded as deferred income as referred to in item (m) (iii).

(k) Expenditure

(i) Expenditures are incurred against authorized appropriations or commitment authorities. Total expenditures reported include unliquidated obligations and disbursements;

(ii) Expenditures incurred for non-expendable property are charged to the budget of the period when acquired and are not capitalized. Inventory of such non-expendable property is maintained at historical cost;

(iii) Expenditures for future financial periods are not charged to the current financial period and are recorded as deferred charges as described below (paragraph (l) (ii));

(iv) Provision to meet contingencies under appendix D to the staff rules of the United Nations for personnel is calculated on the basis of 1 per cent of the net base pay and charged to expenditures.

(l) Assets

(i) Cash and term deposits represent funds held in demand deposit accounts and interest-bearing bank deposits;

(ii) Deferred charges normally comprise expenditure items that are not properly chargeable to the current financial period. They will be charged as expenditure in a subsequent period. The expenditure items include commitments for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead-times are required for delivery;

(iii) Maintenance and repairs of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendables and leasehold improvements are not included in the assets of the Institute. Such acquisitions are charged against budgetary accounts in the year of

purchase. The value of non-expendable property is disclosed in the notes to the financial statements.

(m) Liabilities, reserves and fund balances

(i) Operating reserves are included in the totals for reserves and fund balances shown in the financial statements;

(ii) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations;

(iii) Deferred income includes pledged contributions for future periods and other income received but not yet earned;

(iv) Commitments in respect of UNITAR relating to prior-period, current and future financial periods are shown as unliquidated obligations. Current period obligations related to the General Fund and Special-Purpose Grants Fund remain valid for 12 months following the end of the biennium to which they relate. However, for the activities financed by UNDP, in accordance with UNDP reporting requirements, executing agencies may retain unliquidated obligations beyond 12 months when a firm liability to pay still exists. Savings on or cancellation of prior period obligations are credited to individual projects as a reduction of current period expenditure in accordance with UNDP reporting requirements;

(v) Contingent liabilities, if any, are disclosed in the notes to the financial statements;

(vi) The United Nations Institute for Training and Research is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined benefit plan. The financial obligation of the Institute to the Pension Fund consists of its mandated contribution at the rate established by the Assembly together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the Assembly has invoked article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. As at the date of the current financial statement, the Assembly had not invoked that provision.

Note 3
All funds summary: income, expenditure and changes in reserves and fund balances (statement I); assets, liabilities. reserves and fund balances (statement II); cash flows (statement III)

(a) Statements I, II and III contain financial results for the United Nations Institute for Training and Research, which are totalled into three groups of related funds and, after elimination, combined into a grand total reflecting all activities of the Institute. The combined presentation should not be interpreted to mean that any individual fund can be used for any other purpose than that for which it is authorized. The three groups consist of:

(i) The General Fund;

(ii) The Special-Purpose Grants Fund;

(iii) The activities financed by UNDP

(b) Statement I includes two calculations of the excess (shortfall) of income over expenditure. The first calculation is based on income and expenditure only for the current period of the biennium. The second calculation shown is a net one, which includes any prior-period adjustments to income or expenditure.

Note 4
Non-expendable property

In accordance with United Nations accounting policies, non-expendable property is not included in the fixed assets of the Institute but is charged against the current appropriations when acquired. The non-expendable property, valued at historical cost, according to the cumulative inventory records of the Institute, was $236,168 and $116,407 as at 31 December 2003 and 31 December 2001 respectively.

Note 5
Rental and maintenance charges

The General Assembly in its resolution 58/272 decided to cancel the debt of UNITAR in respect of rental and maintenance charges amounting to $321,184 that was owed to the United Nations. That debt pertaining to prior periods up to 2002 had not been recorded on the books of UNITAR. Rental and maintenance charges for 2003 were included in the Institute's expenditures for the biennium 2002-2003.

Note 6
Contributions in kind

The United Nations Office at Geneva provided administrative support services, including payroll, accounting, travel and visa processing, personnel, the Integrated Management Information System and language training services to UNITAR at no cost. The value of the contribution in kind is estimated at $243,800 for 2002 and $281,700 for 2003. In addition, conference servicing facilities are provided by the United Nations on an "as available" basis free of charge, and UNITAR pays only for interpretation services and additional electronic equipment, if required.

UNITAR's Special-Purpose Grants Fund received contributions in kind estimated at $230,000 for office space and equipment from the Prefecture of Hiroshima, Japan, and $300,000 for secondment of officials from UNAIDS and British Petroleum.

Note 7
Liabilities for end-of-service and post-retirement benefits

(a) The Institute has not specifically recognized, in any of its financial accounts, liabilities for after-service health insurance costs or the liabilities for other types of end-of-service payments, which will be owed when staff members leave the Institute. Such costs are budgeted for in the General Fund, and the actual payments made in each financial period are reported as current expenditures.

(b) Based on established practice, in order to gain a better understanding of the financial dimensions of the Institute's liabilities for after-service health insurance, a consulting actuary was engaged to carry out an actuarial valuation of post-retirement health insurance benefits and, on the basis of the study, it was estimated that the Institute's liability as at 31 December 2003 for after-service health insurance benefits covering all participants, regardless of funding source, was as follows (in United States dollars):

	Present value of future benefits	*Accrued liability*
Gross liability	2 667 000	1 188 000
Offset from retiree contributions	645 000	292 000
Net liability	**2 022 000**	**896 000**

(c) The present value of future benefits figures shown above are the discounted values of all benefits to be paid in the future to all active employees expected to retire. The accrued liabilities represent those portions of the present values of benefits that have accrued from the staff members' dates of entry on duty until the valuation date. Active staff members' benefits are fully accrued on the date on which they become fully eligible for benefits.

(d) Staff members who separate from the Institute are entitled to be paid for any unused vacation days they may have accrued up to a maximum limit of 60 days. The Institute's total liability for such unpaid accrued vacation compensation as at 31 December 2003 was estimated to be approximately $322,000.

(e) Some staff members are entitled to repatriation grants and related expenditures of relocation upon their termination from the Institute based on the number of years of service. The Institute's total liability for such unpaid repatriation and relocation entitlement as at 31 December 2003 was estimated to be approximately $528,000.

(f) During 2003 the Institute began to establish a reserve to provide for expected expenditures for accrued annual leave and repatriation costs for staff members. As at 31 December 2003, the reserve amounted to $130,737 and was included in other accounts payable.

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